

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY PARIS IMMEDIATE

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FOR ASSISTANT SECRETARY ENDERS

FOLLOWING REPEAT STATE 080251 SENT ACTION PARIS DTD 9 APR 75

QUOTE:

C O N F I D E N T I A L

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FOR DDPITY ASSISTANT SECRETARY SIDNEY SOBER, USDEL PREPCON

FOLLOWING TEL SENT ACTION NEW DELHI INFO BOMBAY FROM SECSTATE
09 APR.

QUOTE: LIMITED OFFICIAL USE STATE 080251

E.O. 11652:N/A

TAGS:OVIP (SIMON, WILLIAM A)

SUBJECT: SECRETARY

SIMON SPEECH IN BOMBAY - DRAFT TEXT

I APPRECIATE THE OPPORTUNITY TO MEET WITH REPRESENTA-
TIVES OF THE BUSINESS COMMUNITY TONIGHT HERE IN BOMBAY.

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OUR MEETING OCCURS AT A TIME WHEN THE INTERNATIONAL COMMUN-

TY FACES SERIOUS ECONOMIC CHALLENGES AND OPPORTUNITIES.
THE GLOBAL INFLATION, THE ENERGY CRISIS EXACERBATED BY

LAST YEAR'S FIVE-FOLD INCREASE IN THE PRICE OF OIL, AND NOW A GLOBAL ECONOMIC DOWNTURN HAVE SEVERELY STRAINED THE FABRIC OF THE WORLD'S ECONOMIC TAPESTRY.

THESE PROBLEMS ARE COMPLEX, INTERRELATED, POTENTIALLY DANGEROUS, AND, UNFORTUNATELY, NOT AMENABLE TO QUICK OR EASY SOLUTIONS. IF THE NATIONS OF THE WORLD APPROACH THESE PROBLEMS IN A COOPERATIVE MANNER, I AM CONFIDENT THEY CAN BE RESOLVED. A BREAKDOWN OF INTERNATIONAL COOPERATION IN THE INCREASINGLY INTERDEPENDENT WORLD ECONOMY COULD, ON THE OTHER HAND, MAKE EVERY COUNTRY'S DIFFICULTIES MUCH MORE SEVERE.

SOME OF THE ECONOMIC ARRANGEMENTS FORGED IN THE AFTERMATH OF THE SECOND WORLD WAR ARE NO LONGER FULLY ADEQUATE TO TODAY'S NEEDS. WE SHOULD NOT, HOWEVER, ALLOW THE DRAMA OF THE DAY'S HEADLINES OVERSHADOW HOW WELL THE FUNDAMENTAL PRECEPTS AND INSTITUTIONS OF THE POST-WORLD WAR II ECONOMY HAVE ADJUSTED TO CHANGING ECONOMIC CONDITIONS OVER TIME, AND HOW WIDELY SHARED HAVE BEEN THE BENEFITS THAT THE INTERNATIONAL MARKET SYSTEM HAS PRODUCED. WHAT IS NEEDED, THEREFORE, IS THE CONSTRUCTIVE EVOLUTION OF OUR ECONOMIC INSTITUTIONS RATHER THAN ANY DRASTIC AND DESTRUCTIVE OVERHAUL.

THE POSTWAR INTERNATIONAL PAYMENTS MECHANISM, BASED UPON FIXED EXCHANGE RATES AND GOLD AS THE ULTIMATE RESERVE, HAS ALREADY UNDERGONE BASIC MODIFICATION. FURTHER RECOMMENDATIONS FOR CHANGE ARE UNDER CONSIDERATION BY THE IMF EXECUTIVE DIRECTORS FOR PROPOSAL TO THE IMF'S INTERIM COMMITTEE AT ITS JUNE MEETING. THREE AMENDMENTS DEALING WITH FLOATING EXCHANGE RATES, GOLD, AND THE USE OF IMF CURRENCY RESOURCES ARE OF PARTICULAR IMPORTANCE.

AT THE SAME TIME THAT WE ARE WORKING TO IMPROVE OUR INTERNATIONAL ECONOMIC INSTITUTIONS, WE HAVE TO MOVE ON WITH THE IMMEDIATELY PRESSING TASKS OF RESTORING WORLD LIMITED OFFICIAL USE
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ECONOMIC GROWTH AND PRICE STABILITY, ADAPTING TO THE ENERGY SHOCK, AND ADJUSTING OUR TRADE AND FINANCIAL POLICIES TO ACCOMMODATE THE MASSIVE SHIFTS IN INTERNATIONAL FINANCIAL FLOWS THAT HAVE OCCURRED. THESE TASKS, DIFFICULT IN THEMSELVES, ARE FURTHER COMPLICATED BY THE EFFORTS OF THE OPDC CARTEL TO MAINTAIN PRICES AT LEVELS WHICH CANNOT BE PERMANENTLY SUSTAINED AND HAVE INDEED ALREADY SET IN MOTION THE FORCES WHICH WILL ULTIMATELY UNDERMINE THEM. WITHIN A FEW MONTHS, OPEC'S SHUT-IN CAPACITY MAY RISE TO 15-16 MILLION BARRELS OF OIL A DAY. FURTHERMORE, SIGNIFICANT DISCOVERIES OF OIL HAVE BEEN MADE IN SOME 25-

30 AREAS OF THE WORLD OUTSIDE OF OPEC. THESE NEW FIELDS COULD PRODUCE AN ESTIMATED 6-8 MILLION ADDITIONAL BARRELS A DAY BY THE EARLY 1980'S, AND THIS CALCULATION DOES NOT INCLUDE NEW PRODUCTION COMING FROM THE UNITED STATES, THE SOVIET UNION, AND THE PEOPLES REPUBLIC OF CHINA.

THESE DATA ARE, OF COURSE, A CONFIRMATION OF THE FACT THAT THE LAWS OF SUPPLY AND DEMAND CANNOT BE REPEALED, THAT DESPITE THE EFFORTS OF CARTELS AND OTHER WOULD-BE PRICE ADMINISTRATORS THE MARKET WILL ULTIMATELY ASSERT ITSELF. ALL SUCH INTERFERENCE WITH THE MARKET ACCOMPLISHES IN THE END IS A DIVERSION OF RESOURCES AWAY FROM THEIR MOST EFFICIENT USES AND REDUCED WELFARE FOR BOTH BUYERS AND SELLERS IN THE LONG RUN.

THE COUNTRIES THAT HAVE BEEN MOST SUCCESSFUL IN ADJUST-

ING TO THE NEW ENERGY SITUATION ARE PRECISELY THOSE THAT HAVE ALLOWED THE FREE MARKET TO DO ITS JOB. GERMANY, FOR EXAMPLE, BY RELYING ON THE PRICE MECHANISM, CUT ITS OIL CONSUMPTION 10 PERCENT LAST YEAR. MEANWHILE, THE U.S., DEPENDING LARGELY ON NON-PRICE APPROACHES, REDUCED CONSUMPTION ONLY 3 PERCENT. OF COURSE, NO ONE RELISHES THE PROSPECT OF HIGHER PRICES FOR OIL OR ANYTHING ELSE, BUT ATTEMPTS TO AVOID OR SUPPRESS THE ECONOMIC REALITIES REFLECTED IN THE MARKET PLACE MERELY POSTPONE THE INEVITABLE. EVEN WORSE, SUCH ATTEMPTS USUALLY MAKE THE ADJUSTMENT PROCESS MORE DIFFICULT.

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IN COPING WITH THE ENERGY CRISIS, THE U.S. AND INDIAN ECONOMIES HAVE A BASIC ASSET IN COMMON. BOTH COUNTRIES POSSESS SUBSTANTIAL RESERVES OF COAL. I AM TOLD THAT INDIAN COAL RESERVES EXCEED 100 BILLION TONS, WHICH IS 1300 TIMES CURRENT ANNUAL PRODUCTION. KNOWN U.S. RESERVES ARE 400 BILLION TONS, WHILE LAST YEAR'S OUTPUT AMOUNTED TO 600 MILLION TONS. THE FIVE-FOLD INCREASE IN THE PRICE OF OIL HAS ENHANCED THE DESIRABILITY OF COAL AS A SOURCE OF ENERGY. IT IS VITAL THAT BOTH OUR COUNTRIES STEP UP THE DEVELOPMENT AND USE OF THIS ABUNDANT RESOURCE. THE PRICE INCENTIVES PROVIDED BY TODAY'S MARKET CERTAINLY ENCOURAGE THE RAPID EXPANSION OF COAL PRODUCTION, AND IN THE UNITED STATES THIS PROCESS IS ALREADY UNDERWAY. THE PRESIDENT, IN HIS STATE OF THE UNION MESSAGE, HAS CALLED FOR PROGRAMS TO ALLOW THE GREATER USE OF COAL WITHOUT SACRIFICING OUR CLEAN AIR STANDARDS. THE IMPROVEMENT OF TECHNOLOGY FOR CONVERTING COAL TO GAS AND LIQUID

HYDROCARBONS WILL RESULT IN EVEN GREATER USES OF COAL.

DEVELOPING THE NEW TECHNOLOGY AND IN CONVERTING OIL AND GAS BURNING SYSTEMS TO COAL. GOVERNMENTAL INTERFERENCE IN THE ENERGY SECTOR HAS IN THE PAST INHIBITED THIS ADJUSTMENT PROCESS BY DISTORTING PRIVATE SECTOR INCENTIVES, BUT WE CAN ANTICIPATE CONSIDERABLE PROGRESS ONCE THESE RESTRAINTS ON PRIVATE ENTERPRISE ARE REMOVED.

THE CURRENT WORLD SITUATION HAS BEEN HARD ON BOTH THE DEVELOPED AND THE DEVELOPING COUNTRIES. THE ACUTE STRAINS CAUSED BY THE PRESENT DIFFICULTIES REINFORCE THE LATENT TENDENCIES OF ALL NATIONS TO BLAME EXTERNAL FORCES FOR THEIR PROBLEMS AND TO TURN INWARD AT A TIME WHEN INTERNATIONAL COOPERATION IS AT A PREMIUM. OUR SUCCESS IN RESISTING THESE TENDENCIES AND DEALING EFFECTIVELY, BOTH DOMESTICALLY AND INTERNATIONALLY, WITH THE PRESENT COMPLEX OF PROBLEMS WILL DETERMINE OUR FUTURE PROSPERITY.

THE JOINT MINISTERIAL COMMITTEE ON THE TRANSFER OF RESOURCE, OR THE DEVELOPMENT COMMITTEE FOR SHORT, IS ONE INTERNATIONAL MECHANISM THAT HAS RECENTLY BEEN ESTABLISHED TO ENABLE NATIONS TO WORK TOGETHER IN ATTACKING THESE LIMITED OFFICIAL USE
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PROBLEMS. IN JUNE, THE DEVELOPMENT COMMITTEE WILL MEET TO CONSIDER THE NATURE AND DIMENSIONS OF THE ECONOMIC PROBLEMS FACING THE DEVELOPING NATIONS. A PRIMARY PURPOSE OF THIS, MY FIRST TRIP TO INDIA, IS TO FAMILIARIZE MYSELF FIRST HAND WITH THE PROBLEMS OF THE DEVELOPING COUNTRIES IN GENERAL, AND THE LARGEST ONE IN PARTICULAR, SO THAT I MAY BE BETTER PREPARED TO FULFILL MY RESPONSIBILITIES AS HEAD OF THE U.S. DELEGATION TO THE JUNE MEETING. I VERY MUCH LOOK FORWARD TO WORKING WITH MINISTER SUBRAMANIAN IN THAT IMPORTANT ENDEAVOR.

IN THE PROCESS OF LEARNING MORE ABOUT INDIA, I AM STRUCK BY HOW LITTLE ECONOMIC INTERFACE THERE IS BETWEEN OUR TWO COUNTRIES.

TRADE

IN 1972/73, INDIAN EXPORTS TO THE UNITED STATES TOTALED NEARLY \$358 MILLION, OR ABOUT 14 PERCENT OF TOTAL INDIAN EXPORTS. ONLY THE SOVIET UNION PROVIDED A SLIGHTLY LARGER MARKET FOR INDIAN GOODS IN THAT YEAR. ON THE IMPORT SIDE, INDIA ACQUIRED \$291 MILLION WORTH OF GOODS, OR SOME 12.5 PERCENT OF HER 1972/73 IMPORTS FROM THE UNITED STATES. ONLY THE UK EXCEEDED THESE FIGURES, AND BY A SCANT \$2 MILLION. THUS, TO HIGHLIGHT THE OBVIOUS, THE UNITED STATES IS AN IMPORTANT, IF NOT THE MOST IMPORTANT, TRADING PARTNER FOR INDIA, EVEN WHEN EXCLUDING THE SUBSTANTIAL SHIPMENTS OF GRAIN THAT OCCURRED IN THE MID-

1960'S AND AGAIN IN 1974/75.

FOR THE UNITED STATES, HOWEVER, INDIA WAS NOT A MAJOR TRADING PARTNER, EVEN WHEN COMPARED WITH OTHER DEVELOPING COUNTRIES. TO PROVIDE SOME PERSPECTIVE, TAIWAN, WITH A POPULATION OF 15 MILLION PEOPLE AND A GNP OF JUST OVER \$9 BILLION (ONE-EIGHTH THE SIZE OF INDIA'S GNP), EXPORTED MORE THAN \$4 BILLION WORTH OF GOODS IN 1973, OF WHICH \$1.7 BILLION WENT TO THE U.S. TAIWAN IN THE SAME YEAR IMPORTED GOODS TOTALING \$4 BILLION WORTH OF GOODS INCLUDING \$950 MILLION FROM THE UNITED STATES. SINGAPORE, WITH A POPULATION OF ONLY 2.2 MILLION PEOPLE AND A GNP OF LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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AROUND \$2.5 BILLION, EXPORTED \$613 MILLION OF ITS PRODUCTS TO THE U.S. AND IMPORTED \$765 MILLION WORTH FROM THE U.S.

SURELY THERE IS VAST ROOM FOR AN INCREASE IN THE TRADE BETWEEN OUR TWO COUNTRIES WHICH WOULD BE MUTUALLY BENEFICIAL.

FOR INDIA, EVEN A RELATIVELY SMALL INCREASE IN ITS SHARE OF THE U.S. MARKET WOULD BE SUBSTANTIAL IN ABSOLUTE TERMS. IF, FOR EXAMPLE, INDIA'S SHARE OF U.S. IMPORTS INCREASED BY AS LITTLE AS THREE-TENTHS OF ONE PERCENT, SO THAT IMPORTS FROM INDIA WERE 1 PERCENT OF TOTAL U.S. IMPORTS THIS WOULD MEAN AN INCREASE IN INDIAN EXPORTS OF APPROXIMATELY \$150 MILLION. THIS SUM IS EQUAL TO NEARLY 80 PERCENT OF THE DEBT RELIEF INDIA RECEIVED LAST YEAR FROM THE AID-TO-INDIA CONSORTIUM, AND IT COULD BE REPEATED AND INCREASED EVERY YEAR.

GIVEN THE NEED, DESIRABILITY, AND POTENTIAL FOR INCREASING TRADE BETWEEN OUR TWO COUNTRIES, THE OBVIOUS QUESTION THAT COMES TO MIND IS WHY THE LEVEL IS SO SMALL. THE ANSWER MAY ALSO SHED SOME LIGHT ON THE LIKELIHOOD OF INCREASING OUR TRADE IN THE FUTURE. WHILE THE QUESTION IS NOT SUSCEPTIBLE TO EASY OR CONCISE ANSWERS, AND I DO NOT PRETEND TO MAKE AN IN-DEPTH ANALYSIS TONIGHT, I DO WISH TO OFFER A FEW THOUGHTS FOR YOUR CONSIDERATION.

FIRST, CONCERNING INDIAN EXPORTS TO THE UNITED STATES I AM CERTAIN THAT I DO NOT HAVE TO EXPLAIN TO THIS GROUP THAT, AS A GENERAL RULE, GOODS DO NOT GET UP AND SELL THEMSELVES. SALES EFFORTS ARE REQUIRED ESPECIALLY IN TODAY'S HIGHLY COMPETITIVE INTERNATIONAL MARKETS. ONE WAY OF MARKETING GOODS INTERNATIONALLY WOULD BE TO TIE IN TO THE MULTILATERAL CORPORATE SYSTEM OF PRODUCTION AND DISTRIBUTION. KOREA AND BRAZIL HAVE MADE EFFECTIVE USE OF THIS APPROACH TO INCREASE THEIR EXPORTS TO THE U.S. AND OTHER COUNTRIES. IT IS WORTH NOTING THAT BETWEEN 1969

AND 1973, KOREAN AND BRAZILIAN EXPORTS TO THE U.S. INCREASED BY \$680 MILLION (230 PERCENT) AND \$567 MILLION (190 PERCENT), RESPECTIVELY. INDIA, ON THE OTHER HAND, HAS CHOSEN NOT TO USE THIS MECHANISM.

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AN ALTERNATIVE APPROACH WOULD BE TO DEVELOP YOUR OWN DIRECT DISTRIBUTION SYSTEM WITHIN THE UNITED STATES AS THE JAPANESE HAVE DONE. THUS FAR, INDIA HAS NOT, TO ANY GREAT EXTENT, PURSUED THIS APPROACH EITHER. INCREASED ATTENTION AND EFFORTS TO DISTRIBUTION AND SALESMANSHIP ARE NECESSARY IF INDIAN EXPORTS TO THE UNITED STATES ARE TO INCREASE SIGNIFICANTLY.

THIS LEADS DIRECTLY TO MY SECOND POINT REGARDING EXPORT PERFORMANCE AND NATIONAL ABILITY TO ADJUST TO CHANGING ECONOMIC CIRCUMSTANCES. ONE NOTABLE DIFFERENCE BETWEEN THOSE COUNTRIES WHICH HAVE TAKEN ADVANTAGE OF THE ECONOMIC OPPORTUNITIES OFFERED BY THE INTERNATIONAL MARKET PLACE IN THE PAST 10-15 YEARS, AND WHICH WILL, WE EXPECT,

SUCCESSFULLY SURMOUNT THE CURRENT OIL-INDUCED DIFFICULTIES, AND THOSE WHICH HAVE NOT EXPANDED EXPORTS LIES IN THE GREATER FREEDOM AND INCENTIVES THE SUCCESSFUL COUNTRIES HAVE ALLOWED THEIR PRIVATE SECTORS TO REACT POSITIVELY TO THE OPPORTUNITIES PRESENTED. THE ASSOCIATION OF RAPID GROWTH AND HIGH LIVING STANDARDS WITH PRIVATE ENTERPRISE AND FREE TRADE POLICIES IS SIMPLY TOO APPARENT TO BE DENIED.

INDIA IS NOT, OF COURSE, UNAWARE OF THE IMPORTANCE OF EXPORTS AND HAS ATTEMPTED IN A VARIETY OF WAYS TO INCREASE THEM. IN RECENT YEARS, EXPORT DUTIES HAVE BEEN LOWERED AND IMPORT PRIVILEGES LINKED TO EXPORT PERFORMANCE. SUCH MEASURES SHOULD BE OF SOME HELP. BUT, I QUESTION WHETHER MORE FAR REACHING PROGRAMS TO ENCOURAGE THE PRIVATE PRODUCTIVE SECTOR ARE NOT NEEDED TO ENABLE INDIA TO EARN ALL THE FOREIGN EXCHANGE IT IS GOING TO REQUIRE IN COMING YEARS.

ONE POINT I SHOULD LIKE TO STRESS IS THAT INDIA'S SMALL SHARE OF THE U.S. MARKET IS NOT ATTRIBUTABLE TO RESTRICTIVE PRACTICES ON THE PART OF THE UNITED STATES. OUR LAW HAS BEEN FAIRLY EVENHANDED REGARDING ACCESS TO U.S. MARKETS, WITH PERHAPS THE NOTABLE EXCEPTION OF OUR SUGAR POLICY WHERE PREFERENCES WERE GIVEN FOR MANY YEARS

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TO OUR HEMISPHERE. WE HAVE GENERALLY ADHERED TO THE MOST FAVORED NATION PRINCIPLE. THE TRADE ACT OF 1974, E
ACTED
INTO LAW ON JANUARY 3, 1975, REPRESENTS A SIGNIFICANT DEPARTURE FROM THIS PRINCIPLE IN FAVOR OF THE LESS DEVELOPED COUNTRIES BY ENABLING THE PRESIDENT TO PROVIDE DUTY FREE TREATMENT FOR THEIR ELIGIBLE EXPORTS. THIS WILL PROVIDE PREFERENTIAL ACCESS FOR DEVELOPING COUNTRIES TO THE U.S. MARKET BUT IT WILL NOT PROVIDE AN ADVANTAGE FOR ANY SINGLE LESS DEVELOPED COUNTRY IN COMPETITION WITH OTHER LESS DEVELOPED COUNTRIES. IN SHORT, IT PROVIDES AN OPPORTUNITY FOR COUNTRIES TO EXPAND THEIR EXPORTS TO THE UNITED STATES BUT DOES NOT AUTOMATICALLY GUARANTEE THAT THIS WILL IN FACT OCCUR.

TO LOOK AT THE OTHER SIDE OF OUR TRADE FOR A MOMENT, U.S. BUSINESSMEN SEEKING TO PENETRATE THE INDIAN MARKET COMMONLY REPORT A SENSE OF FRUSTRATION AND DISCOURAGEMENT. IN PART, THIS IS A CONSEQUENCE OF INDIAN POLICIES TO HOLD SCARCE FOREIGN EXCHANGE, SUCH AS THE REQUIREMENT OF A GOVERNMENT-ISSUED IMPORT LICENSE FOR PRACTICALLY ALL GOODS ENTERING THE COUNTRY. OUR EXPORTERS ARE HANDICAPPED BY THE LACK OF RELIABLE INFORMATION REGARDING THOSE SEGMENTS OF THE MARKET WHICH ARE OPEN TO FOREIGNERS, AND BY BUREAUCRATIC DELAYS IN THE APPLICATION OF EXISTING RULES.

IN SHORT, THE REMOVAL OF ADMINISTRATIVE RESTRICTIONS AND THE LIBERALIZATION OF OUR RESPECTIVE TRADING SYSTEMS OFFERS SIGNIFICANT BENEFITS FOR EVERYONE CONCERNED.

INVESTMENT

INVESTMENT IS A SECOND ECONOMIC AREA WHERE THE U.S.-INDIAN INTERFACE IS SURPRISINGLY SMALL. THE INFLOW OF INVESTMENT CAPITAL CAN BE AN IMPORTANT WAY OF HELPING FINANCE DEVELOPMENT.
T. AT THE FEBRUARY MEETING OF THE ECONOMIC AND COMMERCIAL SUBCOMMISSION OF THE INDIA-U.S. JOINT COMMISSION WE WERE ADVISED THE GOVERNMENT OF INDIA CONSIDERED FOREIGN INVESTMENT AN IMPORTANT MEDIUM FOR
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ACQUIRING NEEDED TECHNOLOGY AND FOR EXPANDING EXPORTS. YET, DESPITE THIS EXPRESSED INTEREST, U.S. FIRMS HAVE NOT OVER THE YEARS BEEN EAGER TO INVEST IN INDIA. AS COMPARED WITH TOTAL INVESTMENTS IN DEVELOPING COUNTRIES OF SOME \$25 BILLION, THERE ARE AT PRESENT APPROXIMATELY 420 U.S. FIRMS IN INDIA WITH INVESTMENTS HAVING A BOOK VALUE OF

ONLY \$325 MILLION.

I WOULD LIKE TO MENTION SOME OF THE FACTORS THAT TEND TO DAMPEN THE ENTHUSIASM OF U.S. FIRMS FOR OPERATIONS IN INDIA. FIRST, THERE ARE PRICING IMPEDIMENTS. PRICE CEILINGS HAVE BEEN SET ON A WIDE VARIETY OF PRODUCTS IN THE PAST SUCH AS CEMENT, AUTOMOBILES, PETROLEUM PRODUCTS, PHARMACEUTICALS AND FERTILIZERS. IN MANY CASES, PRICES WERE SET AT UNREMUNERATIVE LEVELS, AND FIRMS WERE FORCED TO CURTAIL PRODUCTION OR OPERATE AT A LOSS. A NUMBER OF FIRMS PARTIALLY OR WHOLLY OWNED BY U.S. CORPORATIONS HAVE BEEN AFFECTED BY THIS POLICY. WHILE WE UNDERSTAND THESE PRICING POLICIES ARE NOT INTENDED TO BE DISCRIMINATORY AGAINST FOREIGN FIRMS, IT NONETHELESS DOES HAVE THE EFFECT OF DISCOURAGING U.S. AND OTHER FOREIGN INVESTMENT. I SUSPECT SUCH POLICIES ALSO DISCOURAGE INDIAN DOMESTIC INVESTMENT.

THERE ARE PROVISIONS OF THE FOREIGN EXCHANGE REGULATION ACT, WHICH CAME INTO FORCE ON JANUARY 1, 1974, WHICH ALSO DISCOURAGE FOREIGN INVESTMENT. FOR EXAMPLE, EXISTING FOREIGN FIRMS IN INDIA ARE REQUIRED TO DILUTE THEIR HOLDINGS TO FORTY PERCENT OF EQUITY OR LESS, AND NEW FIRMS INVESTING IN INDIA ARE REQUIRED TO TAILOR THEIR PROPOSALS TO MEET THIS REQUIREMENT. EXCEPTIONS CAN BE MADE IF THE INVESTMENT IS EXPORT ORIENTED, OR IF IT WILL MAKE AVAILABLE ESSENTIAL FOREIGN TECHNOLOGY.

ALTHOUGH WE DO NOT AGREE THAT SUCH CONTROLS ARE USEFUL, WE RECOGNIZE THE INDIAN INTENTION TO SCREEN CAREFULLY

AND CONTROL INVESTMENT BY FOREIGN FIRMS IN THE INDIAN ECONOMY. THE WAY THE ACT HAS BEEN IMPLEMENTED, HOWEVER, HAS CREATED A CLIMATE OF UNCERTAINTY AMONG POTENTIAL LIMITED OFFICIAL USE
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U.S. INVESTORS WHICH HAS CERTAINLY NOT ENCOURAGED THEM TO INVEST OR EXPAND THEIR OPERATIONS IN INDIA.

THE UNITED STATES GOVERNMENT CAN OFFER "GOOD OFFICES" FOR SPECIFIC PROPOSALS AND CAN HELP ESTABLISH A LIAISON WITH U.S. PRIVATE INVESTORS. IT CANNOT, AND LET ME EMPHASIZE THIS, PLAY A DIRECT ROLE IN THE TRANSFER OF INDUSTRIAL TECHNOLOGY TO INDIA. INDUSTRIAL TECHNOLOGY IS THE PROPERTY OF PRIVATE U.S. FIRMS AND AS SUCH IT MUST BE ENTICED TO COME TO INDIA THROUGH THE CREATION OF A FAVORABLE INVESTMENT CLIMATE. TO REPEAT THE OBVIOUS, U.S. FIRMS WOULD PREFER AS FEW NON-MARKET CONSTRAINTS AS POSSIBLE. BUT, IN THOSE SITUATIONS WHERE THERE ARE GOVERNMENT CONTROLS AND REGULATIONS, STABILITY, CONSISTENCY, AND PRE-

DICTABILITY ARE ESSENTIAL.

ECONOMIC ASSISTANCE

I WOULD LIKE TO CONCLUDE MY TALK TONIGHT WITH A FEW COMMENTS REGARDING U.S. ECONOMIC ASSISTANCE TO INDIA, THE ONE AREA WHERE THERE HAS BEEN CONSIDERABLE INTERFACE BETWEEN OUR TWO COUNTRIES. SINCE THE END OF WORLD WAR II, THE UNITED STATES OFFICIAL BILATERAL DEVELOPMENT ASSISTANCE TO INDIA HAS TOTALED SOME \$9 BILLION IN CONCESSIONAL LOANS AND GRANTS. THUS INDIA HAS BEEN THE LARGEST RECIPIENT OF BILATERAL AID FROM THE U.S. AND HAS ACCOUNTED FOR APPROXIMATELY ONE-EIGHTH OF OUR ENTIRE BILATERAL AID PROGRAM. MOREOVER, INDIA HAS RECEIVED \$3 BILLION IN SOFT CREDITS FROM THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA), OR SLIGHTLY MORE THAN 40 PERCENT OF THAT AGENCY'S LENDING PROGRAM. THE UNITED STATES HAS PROVIDED ONE-THIRD OF IDA'S FUNDS. THE WORLD BANK HAS, IN ADDITION, MADE \$1.3 BILLION IN ORDINARY CAPITAL LOANS TO INDIA. FINALLY, INDIA HAS BEEN A MAJOR BENEFICIARY OF IMF OIL FACILITY AND COULD POTENTIALLY BENEFIT FROM THE U.S.-PROPOSED TRUST FUND, IF THE DEVELOPMENT COMMITTEE AGREES TO SET IT UP. IN SUM, THE UNITED STATES HAS MADE A VERY SUBSTANTIAL INVESTMENT IN INDIA'S ECONOMIC DEVELOPMENT.

THERE IS ONE ASPECT OF THAT ASSISTANCE, HOWEVER, DEBT RESCHEDULING, THAT CREATES PROBLEMS FOR US. BEGINNING IN LIMITED OFFICIAL USE
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1968 AND EXTENDING THROUGH 1974, THE UNITED STATES HAS PARTICIPATED IN MULTILATERAL DEBT RELIEF EXERCISES FOR INDIA THROUGH THE AID-TO-INDIA CONSORTIUM CHAIRED BY THE WORLD BANK. DURING THIS SEVEN YEAR PERIOD, THE U.S. AGREED TO RESCHEDULE \$138 MILLION OF INDIAN DEBT SERVICE

PAYMENTS, WHILE OTHER MEMBERS OF THE AID-TO-INDIA CONSORTIUM RESCHEDULED APPROXIMATELY \$765 MILLION. OVER THE SAME PERIOD, INDIA MADE PAYMENTS OF APPROXIMATELY \$600 MILLION ON HER DOLLAR DEBT TO THE UNITED STATES.

WE RELUCTANTLY PARTICIPATED IN THESE EXERCISES IN ORDER TO ALLEVIATE THE EFFECTS OF PAST AID COMMITMENTS BY SOME DONORS WHO HAD INITIATED THEIR ASSISTANCE PROGRAMS ON HARDER TERMS. AS INDIA'S EXTERNAL DEBT NOW CARRIES A GRANT ELEMENT OF 66 PERCENT, THAT SOFTENING PROCESS HAS BEEN COMPLETED.

AS YOU KNOW, UNDER THE U.S. CONSTITUTION, THE CONGRESS HAS THE SOLE POWER TO AUTHORIZE THE INITIATION OF FEDERAL PROGRAMS AND TO APPROPRIATE FUNDS FOR THEIR IMPLEMENTATION. THE PRESIDENT SUBMITS HIS BUDGET PROPOSALS

AND ADMINISTERS THE PROGRAMS WHEN CONGRESS HAS PASSED THE NECESSARY LEGISLATION, BUT WITHOUT SPECIFIC CONGRESSIONAL AUTHORIZATION AND APPROPRIATION THE EXECUTIVE BRANCH CANNOT SPEND FOR ANY PURPOSES, EITHER FOREIGN OR DOMESTIC.

THE GRANTING OF DEBT RELIEF REDUCES BUDGETARY RECEIPTS AND, UNLESS CLEARLY REQUIRED BY A CRISIS SITUATION, SUCH TANTAMOUNT TO THE EXPENDITURE OF GOVERNMENT FUNDS OUTSIDE THE NORMAL BUDGETARY PROCESS. SUCH PRACTICES WEAKEN THE GOVERNMENT'S ABILITY TO DETERMINE ITS PRIORITIES IN A SYSTEMATIC FASHION AND ASSURE THEIR IMPLEMENTATION. FURTHERMORE, WE CANNOT PROVIDE DEBT RELIEF ON OTHER THAN EMERGENCY GROUNDS WITHOUT INVITING A CONGRESSIONAL REACTION IN THE FORM OF LOWERED FUNDING AND INCREASED RESTRICTIONS ON OUR NORMAL ASSISTANCE PROGRAMS. THAT IS A NO-WIN SITUATION FOR EVERYONE.

MOREOVER,
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DO NOT BELIEVE THAT ANNUAL DEBT RESCHEDULING IS A DESIRABLE APPROACH FROM INDIA'S POINT OF VIEW EITHER. IT IS THOSE COUNTRIES WHICH SCRUPULOUSLY ADHERE TO THEIR CONTRACTUAL OBLIGATIONS THAT FIND THE WORLD CAPITAL MARKETS OPEN TO THEM. LOSS OF ACCESS OF THIS FINANCING REDUCES THE POTENTIAL FOR ECONOMIC DEVELOPMENT.

IN THE LAST ANALYSIS, OF COURSE, OFFICIAL FOREIGN ASSISTANCE CAN MAKE ONLY A MARGINAL CONTRIBUTION TO ECONOMIC DEVELOPMENT. THE ULTIMATE SUCCESS WILL DEPEND UPON THE ENERGY AND INITIATIVE OF A NATION'S OWN PEOPLE AND THE WISDOM SHOWN BY GOVERNMENTS IN FREEING THOSE ENERGIES FOR THE FULL REALIZATION OF THEIR CREATIVE POTENTIAL. AND TO CLOSE THE CIRCLE OF MY REMARKS, A FREE AND GROWING INTERNATIONAL MARKET ECONOMY OFFERS A POWERFUL VEHICLE BY WHICH THE ENERGIES OF THE INDIAN PEOPLE CAN BE MOBILIZED. WE

LOOK FORWARD TO THE CONTINUED COLLABORATION OF THE INDIAN GOVERNMENT IN THE DEVELOPMENT COMMITTEE AND OTHER INTERNATIONAL FORUMS AS WE WORK TO ASSURE AN OPEN, HEALTHY, AND BUOYANT WORLD ECONOMY, AND WE HOPE FURTHER TO SEE THE REFLECTION OF INCREASING INDIAN SUCCESS IN TAKING ADVANTAGE OF THE OPPORTUNITIES PRESENTED BY THE WORLD MARKET IN A GROWING BILATERAL TRADE AND INVESTMENT RELATIONSHIP BETWEEN INDIA AND THE UNITED STATES. KISSINGER
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